Key points

**Past & future SME performance**

SMEs in the UK 'non-financial business economy' have experienced solid growth in recent years. Between 2014 and 2018, SME employment increased by 10.4%. More recently, between 2017 and 2018, SME employment grew by 1.2%, while SME value added rose by 3.4%, comparable with the 4% value-added growth in large firms. SME employment is projected to increase by 2.1% between 2018 and 2020, estimated to create around 228,400 new SME jobs by 2020. SME value added is also forecast to grow by 10.9% over the same period.

**Implementing the Small Business Act for Europe (SBA)**

The UK continues to have a very competitive SBA profile. It performs above the EU average in five SBA areas: ‘Second chance’, ‘Responsive administration’, ‘Access to finance’, ‘Skills and innovation’ and ‘Environment’. The UK performs in line with the EU average in three SBA areas: ‘Entrepreneurship’, ‘Single market’ and ‘Internationalisation’. On ‘State aid and public procurement’, the UK performs below the EU average. In recent years, the UK has made continuous policy improvements in most SBA domains. It brought in slightly fewer new measures in 2018 (10) than it did in 2017, but this is broadly in line with the level of SBA-related policymaking in the UK over recent years.

**SME policy priorities**

The UK makes a wide range of support available to SMEs, though access to that support could merit tailoring to meet the diverse needs of small businesses. Poor payment practices also continue to be cited as a very important issue to tackle. Government action is needed to limit the negative impact that these practices have on SMEs, to create a level playing field on which they can compete and, more generally, to improve corporate behaviour. The uncertainty about the UK’s future trading arrangements with the EU continues to be a major challenge for SMEs involved in UK-EU trade (import and export). Uncertainty about regulatory changes, future access to EU markets and potential increases in input costs are particular concerns for many SMEs.
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1. SMEs — basic figures

<table>
<thead>
<tr>
<th>Class size</th>
<th>Number of enterprises</th>
<th>Number of persons employed</th>
<th>Value added</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>United Kingdom</td>
<td>EU-28</td>
<td>United Kingdom</td>
</tr>
<tr>
<td></td>
<td>Number</td>
<td>Share</td>
<td>Share</td>
</tr>
<tr>
<td>Micro</td>
<td>1,916,714</td>
<td>90.0%</td>
<td>93.0%</td>
</tr>
<tr>
<td>Small</td>
<td>178,029</td>
<td>8.4%</td>
<td>5.9%</td>
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<tr>
<td>Medium-sized</td>
<td>27,954</td>
<td>1.3%</td>
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</tr>
<tr>
<td>SMEs</td>
<td>2,124,697</td>
<td>99.7%</td>
<td>99.8%</td>
</tr>
<tr>
<td>Large</td>
<td>6,168</td>
<td>0.3%</td>
<td>0.2%</td>
</tr>
<tr>
<td>Total</td>
<td>2,130,865</td>
<td>100.0%</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

These are estimates for 2018 produced by DIW Econ, based on 2008-2016 figures from the Structural Business Statistics Database (Eurostat). The data cover the ‘non-financial business economy’, which includes industry, construction, trade, and services (NACE Rev. 2 sections B to J, L, M and N), but not enterprises in agriculture, forestry and fisheries and the largely non-market service sectors such as education and health. The following size-class definitions are applied: micro firms (0-9 persons employed), small firms (10-49 persons employed), medium-sized firms (50-249 persons employed), and large firms (250+ persons employed). The advantage of using Eurostat data is that the statistics are harmonised and comparable across countries. The disadvantage is that for some countries the data may be different from those published by national authorities.

SMEs in the United Kingdom generate slightly less than half of all total value added and just over half of total employment in the UK’s ‘non-financial business economy’. This is lower than the EU averages of 56.4% and 66.6%. SMEs in the UK employ an average of 5.1 people, more than the EU average of 3.9. The biggest SME sector in the UK in terms of value added is professional activities, accounting for one fifth of overall SME value added. This is significantly higher than the EU average of 13.8%. In terms of SME employment, professional activities is the second biggest sector after wholesale and retail trade. Nevertheless, the UK professional activities sector still employs a higher share of employment (14%) than the EU average (11.4%, the fourth highest sector on average in terms of employment).

SMEs in the UK’s ‘non-financial business economy’ have experienced solid growth in recent years. Between 2014 and 2018, SME employment rose by 10.4%, higher than the 7.4% increase in employment in large firms, with micro firms contributing the highest increase, at 17.0%. By contrast, SME value-added growth, at 2.4%, lagged behind the 21.4% of growth generated by large firms. Most recently, between 2017 and 2018, SME employment grew by 1.2%, while SME value added rose by 3.4%, similar to the value-added growth of 4.0% in large firms.

SMEs in the UK’s manufacturing sector have recorded moderate results in recent years. Between 2014 and 2018, SME employment fell by 0.8%, unlike the 9.6% increase in
employment in large firms. SME value-added growth also lagged behind the growth recorded in large firms, rising by only 2.0%, against 11.6% in large firms. Overall sector growth was largely driven by a rise in export turnover, especially since the Brexit vote in 2016, following which the value of sterling depreciated. As a result, export turnover across the sector increased by 14%, while domestic turnover increased by just 2% between the second quarter of 2016 and the second quarter of 2018. Large firms performed better than SMEs, being more export-led and having more human and financial resources available. Consequently, large firms have been better able to adapt to changing circumstances, including the UK’s decision to leave the EU and the resulting uncertainty. SME manufacturers have found the uncertainty since 2016 harder to handle. With fewer resources available, SMEs have tended to cut back on investment and employment in order to stockpile essential raw materials in the event that a ‘no deal’ Brexit scenario leads to disrupted supply chains.

SMEs in the UK construction sector have generated significant increases in employment. Between 2014 and 2018, SME employment rose by 18.5%, well above the 4.6% increase in large firms. Sector growth was boosted by a steady rise in private-sector construction orders, which increased by 76% in 2017. The construction sector is an atypical sector in the overall UK economy in that it has a high proportion of self-employed workers. Consequently, micro firms benefited in particular from the increased demand and therefore contributed most to employment in the sector, generating a 25.3% increase between 2014 and 2018.

Nevertheless, the UK construction sector currently faces a labour shortage, exacerbated by rising demand for housing, especially in highly populated areas. This shortage of construction workers may be further aggravated in the event of a reduced flow of EU migrant workers post-Brexit because the sector relies heavily on migrant labour, particularly in London. This is likely to exacerbate London’s housing shortage.

The number of business registrations in the UK fell by 7.7% from approximately 414,000 to 382,000 between 2016 and 2017. At the same time, the number of companies coming off the register increased by 24%, from approximately 288,000 to 357,000. Both developments may be linked to the depreciation of sterling that followed the EU referendum result in 2016, and which fed into higher prices for raw materials and imports. Nonetheless, the number of new businesses registered continued to outnumber those coming off the register, generating an overall rise in the number of active businesses in the UK to 2.93 million in 2017.

As per the data collected by the European Startup Monitor 2019 project, 62% of the British startups that responded to the online questionnaire were set up by one male founder or an all-male team of founders. 9% were set up by one female founder or an all-female team of founders. The remaining 29% were set up by at least one man and one woman. In terms of their stage of development, 21% are in the pre-seed or seed stage, 47% in the start-up stage, 0% in the steady stage and 32% in the growth stage. Regarding financial aspects, 65% are operating at a loss, 12% currently break-even and 24% are profitable. Of those start-ups that are operating at a loss, 82% expect to break-even in less than 2 years, while 18% expect that it will take them over 2 years to break-even. 50% have a turnover between €1 and €500,000; 26% report having no turnover yet and the remaining 24% have a turnover of over €500,000. They have 10 employees on average, of which around 24% work on a part-time basis. On average they plan to hire 2.5 people within a year.

In 2016, 25,845 firms (11.9% of all firms in the ‘business economy’) with at least 10 employees) were high-growth firms. This is above the EU average of 10.7%. In 2018, SMEs in the specialised knowledge-intensive services and high-tech manufacturing sectors, both of which are usually R&D-intensive, accounted for 44.6% of SME value added in the manufacturing and services sectors, substantially above the EU average of 33.0%.

Over the next two years, SME growth in the UK is expected to continue. SME employment is projected to increase by 2.1% between 2018 and 2020, creating an estimated 228,400 new SME jobs by 2020. SME value added is also forecast to grow by 10.9% over the same period.
2. **SBA profile**

The UK’s overall SBA profile continues to be very competitive. In five SBA areas: ‘Second chance’, ‘Responsive administration’, Access to finance, Skills & innovation and Environment, the UK performs above or well above the EU average. In another three areas: Entrepreneurship, Single market and Internationalisation, the UK performs in line with the EU average. There is only one SBA policy area, State aid & public procurement, in which the UK performs below the EU average.

In 2018 and in the first quarter of 2019, the reference period for policy measures in this year’s fact sheet, the UK implemented 10 new policy measures. These measures addressed 4 out of 10 SBA policy areas. The UK formally announced one additional measure on skills and innovation but it was not implemented in the reference period. Overall, stakeholders acknowledge that progress in implementing the SBA has been good.

The most significant progress made in the reference period was on ‘Access to finance’, with six measures implemented. The British Business Bank launched an interactive online Finance Hub to provide SMEs with independent financial advice and assistance. The Government brought in new laws to enable SMEs to raise money from unpaid invoices, regardless of any contractual restrictions in place. Innovate UK launched a pilot loan programme for SMEs involved in late-stage innovation projects. A €1.17 billion (£1 billion) Housing Delivery Fund supports SME housing developers and is helping to accelerate the delivery of thousands of new homes. The UK has taken a range of measures to end late payments to small businesses by large companies. UK Finance has launched a national ‘Let’s Talk Business’ campaign to encourage SMEs to prepare for the potential changes and opportunities brought about by the UK’s departure from the EU.

The UK has made good progress on ‘State aid and public procurement’, with two measures implemented. It has brought in a new, shorter and simplified public-sector contract to remedy duplications in the procurement application process and to streamline procurement for companies that supply the Government through Crown Commercial Service procurement frameworks. It has implemented a package of new measures to level the playing field for smaller businesses bidding to win Government contracts and to make public procurement more transparent.

The UK has also made good progress on ‘Skills & innovation’, with one measure implemented and a one measure formally announced but not yet implemented. It launched the €9.4 million (£8 million) Business Basics Fund to boost the productivity and performance of small businesses in England. In addition, the Government announced its intention to launch a Small Business Leadership Programme to provide management skills training to small businesses.

The UK has made moderate progress on ‘Entrepreneurship’, with one measure implemented. The Home Office has introduced a new ‘start-up’ visa route to encourage and enable international entrepreneurs to come to the UK and start a business.

Although the UK does not have a specific SBA strategy, the country has made substantial progress in SBA implementation since 2008. It has implemented the vast majority of SBA recommendations and many have been applied as common practice for many years. It has taken a wide range of policy measures over the last decade that have had an impact on all SBA areas.

UK policymaking is guided by a range of complementary Government strategies. For example, the Small Business, Enterprise and Employment Act 2015 was introduced to improve the UK business environment for all businesses, especially smaller businesses. More recently, the UK’s Industrial Strategy focuses on improvements in investments, skills development, infrastructure, the business environment and regional development. Digital transformation is a key objective in each of these main areas. This strategy covers all of the key components outlined in the Small Business Act and the SME action programme.
SBA performance of the United Kingdom: state of play and development from 2008 to 2019

Legend:
1. Entrepreneurship
2. ‘Second chance’
3. ‘Responsive administration’
4. State aid & public procurement
5. Access to finance
6. Single market
7. Skills & innovation
8. Environment
9. Internationalisation

Note: The scores presented in the chart above are not fully comparable to those displayed in previous versions of the fact sheet. This is due to a review of the framework of indicators used to assess performance across the SBA principles. Only the aspects with sufficient background data are presented. The value for progress over time was set to 0% in case of insufficient data and marked in the above chart by a diamond shape. For more details, please consult the methodological note on the webpage of the SME Performance Review: http://ec.europa.eu/growth/smes/business-friendly-environment/performance-review/
3. SBA principles

3.0 ‘Think Small First’

The ‘think small first’ (TSF) principle is meant to be a guiding principle for all policy- and law-making activities. It requires policymakers to take SMEs’ interests into account at the early stages of the policy-making process. The principle also calls for newly designed legislation, administrative rules and procedures to be made simple and easy to apply.

All ‘think small first’ recommendations are in place in the UK and applied as common practice. Most have been in place since 2006. Policy measures implemented in the UK in recent years have largely sought to reduce the burden and cost of regulations on businesses. The launch of the Red Tape Initiative in 2017 by a cross-party parliamentary group is the most recent example. It aims to assess how to reduce bureaucracy in nine sectors once the UK has exited the EU.

The UK Government’s flagship TSF policy measure is the 2015 Small Business, Enterprise and Employment (SBEE) Act. It targets regulatory cost savings of €11.7 (£10) billion by 2020. According to a Government report published in 2018, the Government achieved regulatory cost savings of €7.7 billion (£6.6 billion) by June 2017. The savings delivered represent 66% of the original target, exceeding the interim target of €5.9 billion (£5 billion) that was set for 2018. Despite this success, the UK’s National Audit Office (NAO) has sounded a note of caution. The NAO notes limitations in the Government’s approach to regulatory cost savings and argues that the scope of the Business Impact Target is open to manipulation and may not convey a realistic business-centred view of regulatory costs.

The ‘think small first’ principle was not a priority area for UK Government policy action in 2018 and in the first quarter of 2019; it did not adopt or announce any significant new measures.
3.1 Entrepreneurship

The UK’s overall score on ‘Entrepreneurship’ remains in line with the EU average. Since 2008, the UK has made good progress on this front across almost all indicators. In 2018 however, the UK’s overall score fell slightly compared to 2017. 2018 data show a marked fall in two indicators. Though in 2017, opportunity-driven entrepreneurial activity in the UK was above the EU average at 61%, it fell by 13% in 2018 to 48%, bringing the country in line with the EU average. This indicator has fluctuated year-on-year over the last decade. Except for two years (2014 and 2017), the UK’s score has been below that recorded in 2008 (52%).

The UK’s high job creation expectation rate also fell by nearly 3 percentage points over the past 12 months, down from 23.5% in 2017 to 20.5% in 2018. This marks the second consecutive fall in this indicator since the UK’s peak score of 28.5% in 2016. The 2018 score is broadly in line with that recorded in 2008. The 10 remaining entrepreneurship indicators show a modest rise in four, a modest fall in four and no change in the other two. In 2018, the UK is above the EU average in four indicators and below the EU average in another four. The UK’s strongest score over the last 12 months was on the high status given to successful entrepreneurship, for which the country achieved the third highest score in the EU. The UK has continually scored highly on this indicator for over a decade.

Since 2008, the UK has made good progress in early-stage entrepreneurial activity, both overall and in relation to female entrepreneurship. Overall activity has risen by over 2 percentage points, up from 6% in 2008 to 8.25% in 2018, despite the general downward trend since the UK’s peak score of nearly 11% in 2014. The share of female entrepreneurship follows similar patterns, rising by nearly 2 percentage points from 3.7% in 2008 to 5.5% in 2018, though the latest score is 2 percentage points below the peak of 7.5% achieved in 2014.

Over the last decade, the UK has implemented a broad range of financial, fiscal and business support measures to help start-ups and early-stage companies. The UK has implemented most SBA entrepreneurship recommendations. The main exception is that the UK does not have a national strategy to embed entrepreneurship education in national curricula. Entrepreneurship or enterprise education is, however, provided by individual institutions across the country and the Quality Assurance Agency has published guidance on entrepreneurship education for higher education providers. At decentralised level, such as in Scotland and Northern Ireland, entrepreneurship education forms part of broader strategies.

During the reference period, the UK adopted one significant new measure.
- The Home Office brought in a new ‘start-up visa’ route to encourage international entrepreneurs to come to the UK and start a business. The new route aims to widen the applicant pool of talented entrepreneurs and make the visa process faster and smoother for entrepreneurs coming to the UK. It replaces the visa route exclusively designed for graduates, opening it up to a wider pool of talented business founders. Aimed at aspiring and ambitious non-EEA national entrepreneurs looking to set up business in the UK, the new route will see applicants and their business ideas vetted by an approved industry body against set criteria, with no requirement to have initial capital investment. It will, however, require applicants to have acquired an endorsement from a university or approved business sponsor, including accelerators.

Approximately 1.4 million new businesses have been created in the UK since 2008. This demonstrates that the UK is an attractive environment for start-ups and high-growth enterprises. New and growing businesses are able to access a broad range of support measures. A key example is the British Business Bank, which currently provides €6.9 billion (£5.9 billion) in funding to 82,000 smaller businesses. The UK’s innovation agency, Innovate UK, is another important provider of Government support. Since 2007, Innovate UK has invested €1.8 billion (£1.5 billion) in innovation, matched by the same amount in partner and business funding. The combined investment of €3.5 billion (£3 billion) has helped over 5,000 innovative companies and has supported the creation of 35,000 new jobs. The types of support that businesses can access include, for example, start-up grant and loan programmes, innovation vouchers, R&D tax credits, and private-sector investment schemes.

3.2 ‘Second chance’

‘Second chance’ refers to ensuring that honest entrepreneurs who have gone bankrupt get a second chance quickly. The UK’s overall score for ‘Second chance’ remains well above the EU average. It scores above the EU average on three indicators and in line with the EU average on one indicator. Since 2008, the UK’s score on three indicators remain unchanged. The one exception is the fear of failure rate, which is up from 34% in 2008 to 40% in 2018. The UK’s score on this indicator has fluctuated from one year to the next over the past decade, with the most significant change seen in the last 12 months. The percentage of UK small businesses that fear failure rose by almost 4% from 36% in 2017 to 40% in 2018.

The UK has implemented almost all the SBA ‘Second chance’ recommendations. Only two recommendations are not yet in place. Re-starters cannot yet access finance on an equal footing to start-ups. Fast track procedures were previously available for a period of 10 years; however, due to limited demand, the Government took the decision to abolish them.

Since 2008, the UK has implemented a range of measures to help honest entrepreneurs gain a second chance. In recent years, the most significant measures have sought to modernise the insolvency framework. The purpose was to improve decision-making and encourage creditor engagement. These measures came in under the 2015 Small Business, Enterprise and Employment Act.

In 2018 and in the first quarter of 2019, ‘Second chance’ was not a priority area for Government policy action; the UK Government did not adopt or announce any new significant measures.
3.3 ‘Responsive administration’

‘Responsive administration’ refers to public administration being responsive to the needs of SMEs. The UK’s overall score on ‘Responsive administration’ remains above the EU average. It is one of the EU’s top performers in 5 out of 13 responsive administration indicators.

The UK has made substantial progress on both of these indicators over the past decade. The time required to start a business has fallen from 6 days to 1 day and the cost of starting a business is down from €54 in 2008 to just €13 in 2018.

The UK is also one of 11 countries that do not require start-ups to pay in any minimum capital. It has the second lowest percentage of SMEs that view fast-changing legislation and policies and administrative complexity as an obstacle to business. The UK has made particular progress on these indicators over the past decade, with a 50% reduction on both fronts since 2008.

The UK has achieved a similar improvement in the time required to transfer property, down from 41.5 days in 2008 to 21.5 days in 2018. By contrast, the cost of enforcing contracts in the UK, as a percentage of claims, is more than double the EU average. The UK is also well below the EU average on the competency and effectiveness of Government staff in supporting new and growing firms.

The UK has implemented nearly all SBA responsive administration recommendations. Since 2008, Government measures have largely sought to reduce the burden of regulation on businesses. The Red Tape Initiative and the Business Impact Target are the most recent examples. The Red Tape Initiative assesses how to reduce bureaucracy in nine UK sectors following the UK’s departure from the EU. The Business Impact Target aims to achieve €11.7 billion (£10 billion) in regulatory cost savings for businesses by 2020.

According to an assessment report published in 2018 by the Department for Business, Energy and Industrial Strategy, the Government had achieved 66% of its original target by June 2017. Despite this achievement, the National Audit Office (NAO) has questioned whether the Government’s evaluation of the cost of regulation on business reflects all administrative and regulatory costs.

During the reference period, ‘Responsive administration’ was not a priority area for the Government; the UK did not adopt or announce any significant new measures on this front.

Note: Data bars pointing right show better performance than the EU average and data bars pointing left show weaker performance.
3.4 State aid & public procurement

Important methodological changes have been introduced for this principle in this year's fact sheet. Three new indicators from the Tenders Electronic Daily (TED) database have been added and refer to procurement above EU thresholds:

- percentage of awards for which the winner was an SME;
- proportion of bids by SMEs;
- percentage of calls for tender which were split into lots.

In addition, the indicator on e-procurement has been removed. Therefore, the overall performance in this area cannot be compared to last year's.

The UK's overall score on 'State aid and public procurement' fell below the EU average in 2018, having been in line with the EU average the previous year. The percentage of UK businesses participating in public tenders (22%) remains well below the EU average of 32%. The UK's score on this indicator has been fairly consistent over the last decade. The share of SMEs out of the total value of public contracts awarded has risen dramatically since 2015, up from 6% to 39% in 2018. This equates to an increase of more than 600%, although the figure recorded in 2015 was uncharacteristically low. The UK's score in this indicator over recent years has tended to range between 20-30%.

The proportion of bids submitted by SMEs has increased substantially over the last decade, from 39% in 2008 to 66% in 2018. Similarly, the percentage of calls for tender which were split into lots has increased steadily, from 17% in 2008 to 28% in 2018. By contrast, the percentage of awards for which the winner was an SME fell in 2018 for the second consecutive year, following a 21% increase between 2015 and 2016. The average payment time by the UK public authorities continues to be one of the lowest in the EU at under one day.

The UK has implemented all SBA 'State aid and public procurement' recommendations. Since 2008, the UK has taken a wide range of measures, mainly seeking to improve SME access to public procurement, for example, by increasing Government spending on SME procurement. Other examples include simplified procedures, better information and guidance, and improved payment practices.

During the reference period, the UK adopted two significant measures on this front. 

- It brought in a new, shorter and simplified public-sector contract to remove duplications in the application process and to streamline procurement for companies that supply to Government through Crown Commercial Service (CCS) procurement frameworks. It consists of a standard template for framework contracts for common goods and services. The new contract is designed to make it easier for smaller businesses, who may lack the resources to read and digest reams of complicated terms and conditions, to apply for Government contracts and to supply goods and services to Government.

- A package of new measures has been implemented to level the playing field for smaller businesses bidding to win Government contracts and to make public procurement more transparent. The new measures:
  - exclude suppliers from major Government procurements if they cannot demonstrate fair and effective payment practices with their subcontractors;
  - allow subcontractors to have greater access to buying authorities to report poor payment performance, signalling the Government's commitment to improving payment practice in the UK;
  - require suppliers to advertise subcontracting opportunities via the Contracts Finder website, and
to provide the Government with data showing how businesses in their supply chain, including small businesses, are benefiting from supplying to central Government;

- require the nomination of a ‘Small Business Champion Minister’ in each Government department to ensure that SMEs are given a fair opportunity.

3.5 Access to finance

The UK’s overall score on ‘Access to finance’ is above the EU average, having been in line with the EU average the previous year. It is above the EU average on five indicators and broadly in line with the EU average on all other indicators. The UK has the third highest score in the EU for venture capital investments as a percentage of GDP, up by 100% on the score recorded in 2017 (0.04%). The percentage score in 2018 is now back at the level recorded in 2008.

Over the past decade, the UK has reduced by half the total amount of time it takes to get paid, from 49 days in 2008 to 24 days in 2018. It scores 7 out of 12 on the strength of the legal rights index, placing the country above the EU average of 5.7. The UK’s score for this indicator has remained stable at 7 since 2014, having previously scored 10 out of 12 between 2008 and 2013.

The number of rejected loan applications and unacceptable loan offers, as a percentage of loan applications by SMEs, fell by 56% since the previous year, from 9% in 2017 to 4% in 2018. This reverses a similar rise between 2016 and 2017. The UK’s score on this indicator has slightly improved since 2015 and 2016. It is the UK’s best score for this indicator since 2008, significantly below the UK’s worst score recorded in 2012 (28%).

The UK has achieved substantial improvements in terms of bad debt loss as a percentage of total turnover. Although it remains below the EU average on this indicator (1.7%), bad debt loss has fallen by over 50% from 4.7% in 2017 to 2.2% in 2018, which is the second-best score that the UK has recorded since 2008 (1.9%).

The UK has implemented all recommendations on the SBA ‘Access to finance’ principle. The Government has focused action on this principle since the 2008 economic crisis. As a result, it has taken more measures on improving access to finance than in any other SBA area. The establishment of the British Business Bank (BBB) is the standout measure of recent years. The BBB is 100% Government owned and works with over 100 finance partners to improve lending conditions for smaller businesses.

During the reference period, the UK adopted six significant measures.
The British Business Bank (BBB) launched a new interactive online Finance Hub that offers independent information on finance options for scale-up, high-growth and potential high-growth businesses. It features checklists to get ‘investor ready’ and articles from finance providers on how smaller businesses can identify and access the right finance for their growth ambitions. It also houses the BBB’s new Finance Finder, a simple six-step tool that enables smaller business to explore and identify some of the finance options that could work for them. It is designed to appeal to busy, digitally-savvy smaller business leaders with engaging, jargon-free content, infographics, videos and event listings to allow small businesses to grow their networks. It also shares case studies and learnings from businesses that have successfully accessed finance.

New laws have been introduced to arm small businesses against unfair contracts that stop them raising money from unpaid invoices. Under the new laws, any contractual restrictions entered into after 31 December 2018, with certain exceptions, will have no effect and can be disregarded by small businesses and finance providers. The new laws aim to give small businesses greater access to the finance they need to succeed and help ensure they have a level playing field from which to set fair contracts with the businesses they supply.

Innovate UK is running a pilot programme of loan competitions for SMEs involved in late-stage innovation projects. SMEs that want to scale up and grow by developing new or improved products, processes or services can apply for a loan of up to €1.17 million (£1 million) to help them turn their innovation into a commercial reality. A fund of up to €58 million (£50 million) will be made available over 2 years to the end of 2019. All technology and industry sectors are eligible.

The Housing Delivery Fund is making €1.17 billion (£1 billion) in loan financing available to help support SME housing developers and speed up the delivery of thousands of new homes planned across England. Loans between €5.8 million (£5 million) to €117 million (£100 million) are available to developers that can demonstrate the necessary experience and commitment to building excellent new homes, and a track record of delivering challenging projects on time and to target.

The UK has brought in new measures to end the problem of late payments to small businesses by large companies who abuse their market position. Trade bodies are now empowered to highlight the best and worst practices in payment behaviour in order to deliver practical improvements. A call for evidence is assessing how company boards can put in place responsible payment practices throughout their supply chain. Innovative technologies are being promoted to help small firms to manage their payments processes. The Government has also given a commitment to pay 90% of undisputed invoices from SMEs within 5 days.

UK Finance has launched a national ‘Let’s Talk Business’ campaign to encourage SMEs to prepare for the potential changes and opportunities brought about by the UK’s departure from the EU. Supported by leading business organisations, the campaign calls on firms that have not yet done so to consider the implications for their business. The campaign also encourages businesses to consider how to maximise growth and capitalise on the opportunities ahead.
3.6 Single market

The UK’s overall score on ‘single market’ indicators has improved since the previous year. It is now in line with the EU average, having been below the EU average the previous year. The UK has substantially shortened the average transposition time for overdue directives in the past year by nearly 50%, from 8.3 months in 2017 to 4.5 months in 2018. This moves the UK’s score for this indicator to well above the EU average (8.4 months), the second-best score for the UK on this indicator since 2008.

Over the past 12 months, the UK has reversed the trend in the number of single market directives not yet transposed (increasing between 2015 and 2017). The number recorded in 2018 (8) is now back to the level recorded in 2016, down from 11 in 2017, considerably below the peak recorded in 2011 (20). By contrast, the number of pending infringement proceedings went up from 26 in 2017 to 32 in 2018. This is the first annual increase since 2014, following three years of annual falls, but considerably lower than the peak recorded in 2010 (68 infringement proceedings).

In addition, the number of public contracts secured abroad by SMEs in the UK, as a percentage of the total value of public contracts, has continued to fall year-on-year since 2008. The most significant drop in this indicator occurred between 2009 and 2011, from 4% to 0.8%. Since 2011, it has fallen steadily year-on-year to reach just 0.13% in 2017. This is significantly below the EU average (almost 4%) and is now the second lowest score in the EU on this indicator.

The number of UK SMEs exporting online to EU countries has barely shifted since 2015, with the figure plateauing at around 9%, and falling very slightly. New and growing firms in the UK have also reported a slight increase in the ease with which they can enter new markets. This indicator has tended to fluctuate year-to-year, albeit only slightly. Across all other single market indicators, there has been little movement in recent years.

The SBA ‘Single market’ principle was not a priority area for the UK Government in 2018 and in the first quarter of 2019; it did not adopt or announce any new significant measures.
3.7 Skills & innovation

The UK’s overall score on ‘Skills & innovation’ continues to be above the EU average. It scores above the EU average in nine individual skills and innovation indicators, although for a number of indicators, the latest data available date back to 2016 or 2015. The latest data on the percentage of innovative UK SMEs collaborating with other SMEs (31%) date back to 2016, which currently ranks as the top score for this indicator across the EU, against the EU average of 12%.

The percentage of enterprises in the UK employing ICT specialists has increased by 2 percentage points over the past 12 months from 21% in 2017 to 23% in 2018. This is almost 5 percentage points above the EU average (18%), but below the 29% recorded for the UK between 2008 and 2012. This indicator has seen a downward trend since 2012. The percentage of UK companies providing ICT skills training to their employees also rose by 2 percentage points over the past year from 25% in 2017 to 27% in 2018.

The percentage of UK SMEs selling their products and services online in 2018 (19%) remains above the EU average (17%). The UK’s score on this indicator has seen little movement since 2013. Turnover from e-commerce increased slightly over the past 12 months from 9% in 2017 to 11% in 2018, in line with the EU average for this indicator. By contrast, the UK innovation rate in 2018 (22%) is 7 percentage points below the EU average of 29%. This indicator has seen a year-on-year drop over the past four years from 36% in 2015. The UK’s current innovation rate of 22% is less than half the score recorded between 2008 and 2011 (46%).

The UK has implemented all SBA recommendations on ‘Skills and innovation’. It has implemented many measures since 2008 to provide a wide range of skills and innovation support schemes and incentives. Examples include the Catapult Centre network to provide commercialisation support to SMEs, and fiscal incentives such as tax relief to encourage R&D and innovation.

The UK Government adopted one significant measure in 2018 and the first quarter of 2019. It launched the Business Basics Fund with a budget of €9.4 million (£8 million) to boost the productivity and performance of small businesses in England.
The Fund is designed to help more small businesses adopt tried and tested technologies with the aim of unlocking untapped benefits to the UK economy worth up to €117 billion (£100 billion). This support scheme is expected to add to the evidence base of what works to drive up SME productivity. The Fund is part of the Government’s Industrial Strategy.

The UK Government formally announced one significant measure in 2018 and the first quarter of 2019. It announced that it intends to launch a Small Business Leadership Programme to provide management skills training to small businesses, as part of a package of industrial strategy measures to improve leadership and management in businesses. The target is to support 2,000 small businesses in 2019-2020, and up to 10,000 small businesses a year by 2025, if there is sufficient demand. It will implement the programme in partnership with business schools and leading organisations in England. Over 100 mentors from companies such as GSK, Amazon, KPMG and Siemens have already signed up to offer their management expertise.

3.8 Environment

The UK’s overall score on the environmental indicators remains above the EU average, although the latest data available for all indicators refer to 2017. The UK is above the EU average in all but one indicator. It has the second highest percentage (95%) of SMEs that have implemented resource efficiency measures, against the EU average of 89%.

By contrast, the UK is one of the countries with a lower percentage of SMEs selling green products or services. The UK’s score (19%) for this indicator is 6 percentage points below the EU average (25%). The percentage of SMEs that have benefited from public support measures for resource efficiency measures increased by more than 100% between 2016 (19%) and 2017 (41%), back in line with the figures recorded in the UK between 2008 and 2014 (39%). The percentage of UK SMEs that have benefited from public support measures for producing green products also rose between 2016 and 2017 by 8 percentage points to 42%, having stabilised at 34% a year between 2008 and 2015. The percentage of UK SMEs with a turnover share of more than 50% generated by green products or services rose by 5 percentage points between 2016 and 2017, up from 16% to 21%. This has reversed a downward trend for this indicator since the peak of 29% recorded between 2008 and 2012.

The UK has implemented almost all SBA environment recommendations. Regulatory incentives to encourage businesses to become certified under the EU’s Eco-Management and Audit Scheme (EMAS) are lacking. EMAS certification is currently a voluntary scheme that has had limited uptake.

The environment principle of the SBA was not a priority area for the UK Government in 2018 and the first quarter of 2019; it did not adopt or announce any significant new measures.
3.9 Internationalisation

The UK’s overall score on ‘Internationalisation’ remains in line with the EU average, although the latest data available for most environment indicators are from 2017. The UK scores above the EU average on four indicators. It is one of a number of countries that has achieved a maximum score on the involvement of the trade community (2 out of 2 index points), 0.35 index points above the EU average. By contrast, the UK is one of five countries with the second lowest score on advance rulings (1.6 out of 2 index points), against the EU average of 1.82. On formalities (automation), the UK’s score rose from 1.43 index points in 2016 to 1.67 in 2017, returning the UK to the level recorded between 2008 and 2014. On formalities (procedures), the UK’s score has risen from a base of 1.01 index points between 2008 and 2014 to 1.25 in 2015 and 2016, and up to 1.5 in 2017.

The UK has implemented a limited number of internationalisation measures since 2008, though it remains competitive in this SBA area. Recent measures have mainly sought to provide SMEs with export-related funding and business support services.

The ‘internationalisation’ principle of the SBA was not a priority area for the UK Government in 2018 and the first quarter of 2019; it did not adopt any significant new measures.

There continues to be uncertainty surrounding the UK’s future trading arrangements with the EU. This represents a considerable challenge to all businesses and particularly SMEs involved in UK-EU trade and even trade outside the EU that is covered by EU trading agreements. Without knowing what the trading arrangements will be once the UK has departed the EU, it is difficult for those SMEs to plan ahead and mitigate their exposure and risks to their businesses.

The percentage of UK SMEs that export online outside the EU fell slightly from 7% to 6.8% between 2016 and 2017, though it has remained fairly stable since 2013. On two other indicators related to extra-EU goods exports and imports by SMEs, there has been a slight downward trend. The UK’s score on both indicators has fallen gradually by 2 percentage points over the last decade.
4. Interesting initiative

Below is an example of an initiative from the United Kingdom to show what governments can do to support SMEs.

Housing Delivery Fund

The Housing Delivery Fund is making €1.17 billion (£1 billion) in loan financing available to help support small and medium-sized developers to speed up the delivery of thousands of new homes planned across England. Support ranging between €5.8 million (£5 million) and €117 million (£100 million), is being made available to developers able to demonstrate the necessary experience and commitment to building excellent new homes, whilst boasting a track record of delivering challenging projects on time and on target.

The Housing Delivery Fund aims to support the delivery of new homes that will include social housing, retirement living and apartments for rent, whilst encouraging greater innovation on how housing is delivered, such as brownfield land and urban regeneration projects.

The Fund is being implemented in partnership with Barclays Bank. It forms part of the Government’s wider commitment to increase the pace of housing delivery in England. The Government is targeting the delivery of 300,000 new homes a year by the mid-2020s.

References:


https://www.barclayscorporate.com/insights/industry-expertise/housing-delivery-fund/

Important remarks

The European Commission Directorate-General for Internal Market, Industry, Entrepreneurship and SMEs (DG GROW) produces the SBA fact sheets as part of the SME Performance Review (SPR), its main vehicle for economic analysis of SME issues. They combine the latest available statistical and policy information. Published annually, they help to organise the available information to facilitate SME policy assessments and monitor SBA implementation. They take stock and record progress. They are not an assessment of Member State policies. Rather, they should be regarded as an additional source of information to improve evidence-based policy-making. For example, they cite only policy measures national SME policy experts consider relevant. They do not and cannot reflect all measures the Government has taken over the reference period. There is more policy information on a database accessible from the SPR website.

SME Performance Review:
grow-spr@ec.europa.eu

Small Business Act:

Entrepreneurship and SMEs:
https://ec.europa.eu/growth/smes

Endnotes

1 The two graphs below present the trend over time for the variables. They consist of index values for the years since 2008, with the base year 2008 set at a value of 100. As from 2017, the graphs show estimates of the development over time, produced by DIW Econ on the basis of 2008-2016 figures from Eurostat’s Structural Business Statistics Database. The data cover the ‘non-financial business economy’, which includes industry, construction, trade and services (NACE Rev. 2 sections B to J, L, M and N). They do not cover enterprises in agriculture, forestry and fisheries or largely non-market service sectors such as education and health. A detailed methodology can be consulted at: http://ec.europa.eu/growth/smes/business-friendly-environment/performance-review/

2 SME size breakdowns for the UK should be treated with caution, as micro firms are only included in the statistics on UK micro firms if their turnover exceeds GBP 80,000 per year. (This is connected to the UK VAT threshold.) The UK micro firm turnover threshold for statistical purposes is high compared with other EU countries, and this therefore distorts any EU comparison of micro firms. Furthermore, the underrepresentation of micro firms with turnover below the threshold affects the overall SME contribution to value added and employment, the average number of persons employed per SME and average SME productivity. This should be taken into consideration when comparing UK figures with the EU averages.

3 Value added figures are stated in EUR. However, due to significant fluctuations of the EUR-GBP exchange rate throughout recent years, calculated value-added growth rates are distorted. Therefore, changes in value added should be treated carefully, and interpreting the figures should be limited to the comparative performance of sectors or size classes. https://www.ecb.europa.eu/stats/policy_and_exchange_rates/euro_reference_exchange_rates/html/eurofxref-graph-gbp.en.html, last accessed 5.5.2019.


cal work on the dataset and the visual standard deviations of the simple, non-ranges. Hence, the location of a particular progress made between 2008 and 2019. All SBA 9.

The national SME policy expert that PwC (DG GROW’s lead contractor for the 2019 SBA fact sheets) calculated as composite indicators following the OECD/JRC Handbook guide. A detailed relative to the EU average at a given point in time, but also about the extent of pro

SBA area average in any of the four quadrants provides information not only about where the country is located in this SBA ar

The quadrant chart combines two sets of information. Firstly, it shows current performance based on data for the latest available years. This information is plotted along the X-axis measured in standard deviations of the simple, non-weighted arithmetical average for the EU. Secondly, it shows progress over time, i.e. the average annual growth rates from 2008 to 2019. These are measured against the individual indicators which make up the SBA area averages. Hence, the location of a particular SBA area average in any of the four quadrants provides information not only about where the country is located in this SBA area relative to the EU average at a given point in time, but also about the extent of progress made between 2008 and 2019. All SBA principles, with the exception of the ‘think small first’ principle for which there is not enough statistical data available, are calculated as composite indicators following the OECD/JRC Handbook guide. A detailed methodology can be consulted at: http://ec.europa.eu/growth/smes/business-friendly-environment/performance-review/

The policy measures presented in this SBA fact sheet are only a selection of the measures the Government took in 2018 and the first quarter of 2019. The national SME policy expert that PwC (DG GROW’s lead contractor for the 2019 SBA fact sheets) contracted made the selection. The experts were asked to select only the measures they considered the most important, i.e. the ones expected to have the highest impact in the SBA area in question. The complete range of measures the experts compiled in producing this year’s fact sheets will be published alongside the fact sheets in the form of a policy database on the DG GROW website.


26 British Business Bank, Online Finance Hub: https://www.british-business-bank.co.uk/finance-hub/